

Prepared Remarks Concerning United States v. David A. Stockman, et al.

by

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Today, we announce fraud charges against David Stockman and three of his top executives at Collins & Aikman – an auto parts supplier that filed for bankruptcy in May 2005. The indictment unsealed this morning charges Stockman, J. Michael Stepp, David Cosgrove, and Paul Barnaba with securities fraud and related charges and Stockman and Stepp with obstruction of justice.

Stockman and his partners in a private equity firm took control of Collins & Aikman in 2001. The company was struggling. Between 2001 and 2005, as Collins & Aikman slid further and further into financial trouble, Stockman hid the full truth from the company's investors and lenders. In the end, just weeks after Stockman had assured the public and his lenders that the company's earnings and liquidity were sufficient to survive, Collins & Aikman filed for bankruptcy. Stockman's fraud was in hiding the full extent of Collins & Aikman's troubles from the market.

Stockman did not have only money at stake: his reputation was on the line as well. In 2003 he told a reporter with the New York Times: "This was my idea; I'm going to stick with it. I'm going to make it happen and make sure it becomes a success." Stockman stuck with it at the cost of the investing public, the financial integrity of the company and the truth.

With his reputation at risk and C&A loaded down with debt, Stockman set about trying to revive the ailing company. But when Stockman and his co-conspirators could not do so by honest means, they resorted to lies, tricks and fraud in an effort to buy themselves more and more time to save the business. These lies were prompted by a simple truth: the banks that lent C&A

hundreds of millions of dollars and the bondholders who bought hundreds of millions more of the company's debt, could have declared the company in default if its business fell below certain performance thresholds.

Stockman's schemes took many forms:

They involved secret agreements for round trip transactions with suppliers, designed to boost Collins & Aikman's income, fake documentation to fool auditors into approving improper accounting for supplier rebates, lies to Collins & Aikman's lenders to get cash desperately needed to keep the business afloat, and, finally, as the company's fortunes plummeted in the spring of 2005, lies about income projections in order to get a last ditch infusion of cash into the company.

In the end, Stockman and his co-conspirators were unable to hide the truth about the failing business, and a week after Stockman was forced out of power, Collins & Aikman filed for bankruptcy. In the years that Stockman and his co-conspirators forestalled bankruptcy through lies and fraud, Collins & Aikman sold hundreds of millions of new bonds to public investors, and it borrowed hundreds of millions from lenders. Many public investors bought its stock on the open market. Those bond and stock holders are now left with nothing as a direct result of the fraud we have charged today:

Let's look briefly at those fraudulent schemes:

[move to chart]

Explain chart layout

- Business of C&A
- Parts to OEMS -- dashboards, seats, steering wheels
- Resin, fabric, steel from suppliers

There are three parts to the charged scheme:

Rebate Fraud Schemes

Starting in 2001, Stockman sought to boost C&A's income through two separate rebate fraud schemes. First, Stockman asked a fabric supplier, Joan Fabrics, to pay certain "rebates" to C&A. Those "rebates" would cut the company's costs and boost its income for 2001. In return, Stockman promised to pay back Joan Fabrics. In sum, Stockman arranged a round trip of cash from Joan Fabrics to C&A, and back again, and claimed this as a way to boost the company's income.

The second part of the scheme involved many suppliers. **Stockman and his co-conspirators took legitimate cost reductions that C&A had negotiated with its suppliers, and booked them months and even years before they had been earned.** To hide this part of the scheme from the company's auditors, **Stockman directed his staff to create false documents** that papered these discounts that were tied to *future business* as if they were rebates given for *past purchases*. These false documents were then given to C&A's auditors, who were misled into thinking that the company had properly recognized rebates for past purchases, when in fact the discounts had not yet been earned and could not yet be counted as cost reductions.

Stockman used these schemes to bolster C&A's books for more than three years, from late 2001 to early 2005.

GE Capital Corporation Fraud

In early January 2005, C&A essentially ran out of money. One source of money for the company was an accounts receivable securitization facility with GE Capital Corporation. This was simply an arrangement where C&A pledged its accounts receivables -- money owed to C&A for goods sold to the car companies -- in return for cash now. In early January 2005, C&A owed GE Capital almost \$22 million that it could not pay. Instead of telling GE Capital the truth, Stockman directed his staff to hide the default from GE Capital by borrowing against ineligible

receivables – borrowing from GE Capital based on bills that C&A’s customers hadn’t yet agreed to pay. Stockman used this fraud to borrow millions of dollars from GE Capital during just the first quarter of 2005.

Lies in the First Quarter of 2005

Finally, in the first quarter of 2005, with C&A’s business failing and having run out of supplier rebates to pad its income figures, Stockman resorted to outright lies in an effort to stave off default and bankruptcy. In March and April 2005, Stockman repeatedly told the public and C&A’s lenders that the company’s first quarter results were going to be roughly twice what he knew they would be, in order to avoid a default on the existing debt covenants and in order to convince yet another lender, Credit Suisse First Boston, to lend the company \$75 million. When the company spent that \$75 million by the end of April 2005, and again ran out of cash, the Board of Directors forced Stockman’s resignation and, shortly thereafter, filed for bankruptcy.

Roles of the Co-defendants

The other defendants charged today helped Stockman carry out this fraud scheme. J. Michael Stepp, a partner in the private equity fund and the former Chief Financial Officer of C&A, participated in the rebate fraud schemes. David Cosgrove, C&A’s former Controller, edited and approved the false paperwork given to C&A’s auditors; and Paul Barnaba, who worked in the Purchasing Department at C&A, gathered that paperwork to hide the truth from C&A’s auditors.

We also announce today that four defendants have pleaded guilty to charges arising from this investigation. Those defendants are former C&A Treasurer John Galante, former head of C&A’s commercial group Chris Williams, former C&A Fabrics Division president Gerald Jones, and former C&A Plastics Division CFO Thomas Gougherty.

Not Charging Collins & Aikman

We also announce today that my Office has reached a non-prosecution agreement with the Collins & Aikman corporation. While the fraud at Collins & Aikman went to the highest levels of the company and was designed for the benefit of the company, the extensive cooperation provided by Collins & Aikman to date, as well as its current financial circumstances, prompted our conclusion that the public interest did not require that the company be charged. Collins & Aikman has committed to continue its cooperation with our investigation.

This case is not about accounting disagreements. It is about systematic, purposeful lies told to a company's auditors, creditors and investors about how much money the company was making. It is about fake documentation created at the direction of Stockman and his coconspirators, designed to hide the truth from auditors. And it is about Stockman's increasingly desperate attempts to avoid C&A's bankruptcy, by repeatedly lying to the public and the company's lenders, to get them to throw good money after bad.

Investors assume many risks in financing American business. They should not have to worry about whether the leaders of American business are telling them the truth.